

India needs to spread benefits of its reform

This requires managing flow of people from rural to urban areas

By **VIKRAM KHANNA**

[SINGAPORE] While India has benefited from globalisation and is forging ahead in many areas, it faces a number of economic and political challenges, Finance Minister Tharman Shanmugaratnam said yesterday. Mr Tharman delivered the keynote address at the fourth international conference on South Asia, organised by the Institute of South Asian Studies (ISAS) on the theme "Challenges of Economic Growth, Inequality and Conflict in South Asia".

Mr Tharman pointed out that India's economic reforms, which were launched in 1991, are working – regardless of which government is in power.

"Globalisation is a large part of the explanation for India's new growth trajectory," he said. He noted that India's embrace of globalisation is also reflected in foreign direct investment (FDI) numbers – last year, inward flows of FDI to India totalled US\$35 billion, while outward flows were US\$19 billion.

Besides globalisation, the strength of India's domestic demand is also helping to strengthen India's dynamic private sector, he said. Another plus was that policymaking in India is now based on pragmatism rather than ideology.

But for all its strengths, India faces huge challenges, Mr Tharman pointed out. One is that, as Indian policymakers themselves acknowledge, after 18

years of reform, the benefits have not trickled down far enough. In particular, the condition of the bottom 30 per cent of India's population "is a sad picture of destitution and neglect".

Mr Tharman said that spreading the benefits of reforms more widely would require India to accelerate and manage the flow of people from rural to urban areas, as was done in Europe and the US during their early development more than a century ago, and more recently, by China since 1978.

This in turn would need job creation on a mass scale, which can only be done by raising the profile of India's manufacturing sector, particularly labour-intensive export-oriented manufacturing, as services exports cannot create mass jobs, he noted.

He pointed out that scaling up manufacturing would require improving infrastructure, as well as raising standards of education, including at the primary level.

India's dynamic private sector could play a key role in both these areas, he said, which would suggest that India's way forward "will be through a unique private-public partnership".

Discussing the interplay of politics and economics, Mr Tharman observed that the nature of politics in India creates difficulties for policymakers. Voting patterns suggest that politics is short-term, sectarian and caste-based, which reduces the scope for policymakers to make trade-offs in favour of the larger good.

Later, at the same conference, Indian parliamentarian and author Arun

Shourie agreed that politics "is a major drag on the region" and that observers of India need to pay more attention to the institutions of the state and the norms of public life.

Mr Shourie, who served as a Cabinet minister in the Bharatiya Janata Party-led coalition government of Prime Minister Atal Behari Vajpayee during 1999-2004, said that politicians in India have "pandered to narrow identities". He noted that 99 per cent of the members of India's Lower House of Parliament have been elected on the strength of minority votes. More than 60 per cent of those elected received less than 35 per cent of votes, while 40 per cent of parliamentarians received less than 19 per cent of votes. This pattern creates clear incentives to engage in divisive politics and weaken the coalition, he said. India also suffers from adversarial politics, in which Opposition politicians oppose governments on specific policies and then adopt the same policies when they are in government.

Mr Shourie suggested that political reform is therefore unlikely to come spontaneously from within the system and that India's increasingly powerful middle class, professionals and industry groups need to create pressure for change. "India cannot rely on politicians to reform politics," he said.

The conference, which is ISAS's biggest annual event, was supported by the Singapore Business Federation; the Singapore Indian Chamber of Commerce and Industry; and the Indus Entrepreneurs, an industry group.